

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
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FISCAL IMPACT STATEMENT

LS 6097
BILL NUMBER: SB 189

DATE PREPARED: Dec 1, 2001
BILL AMENDED:

SUBJECT: Sales Tax on Food.

FISCAL ANALYST: John Parkey
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FUNDS AFFECTED: ☒ **GENERAL**
☒ **DEDICATED**
FEDERAL

IMPACT: State

STATE IMPACT	FY 2002	FY 2003	FY 2004
State Revenues		(5,600,000)	(6,400,000)
State Expenditures			
Net Increase (Decrease)		(5,600,000)	(6,400,000)

Summary of Legislation: This bill provides that a food item sold from a vending machine may fall within the category of "food for human consumption" and may therefore be exempt from the Sales Tax. (Current law specifically excludes food sold from a vending machine from the category of food for human consumption and thus makes vending machine food subject to the Sales Tax.) The bill creates a new category ("food for immediate human consumption") to refer to certain types of food (including restaurant food, take out food, and catered food) that are excluded from the category of food for human consumption and are therefore subject to the Sales Tax. The bill does not designate vending machine food as a food for immediate human consumption.

Effective Date: July 1, 2002.

Explanation of State Expenditures: The Department of State Revenue may incur additional administrative expenses associated with accommodating these changes. Any additional expense is expected to be covered using existing staff and resources.

Explanation of State Revenues: This proposal will make items sold through vending machines subject to the same Sales Tax exemptions that apply to items sold through other means. (Under current law, all items sold through vending machines are taxable, including food items that would be tax exempt if sold in a store.)

The exemptions created by this bill are estimated to reduce sales tax revenue by **\$5.6 M** in FY 2003 and **\$6.4 M** in FY 2004. Because of the timing of remittance and posting of Sales Tax revenue, the estimated impact for FY 2003 includes collections from 11 of the 12 months the proposal is in effect during FY 2003.

This analysis assumed that sales of certain snack foods, juice, packaged microwavable foods, nuts, fruit, and dairy products sold through vending machines would become exempt from the sales tax. Sales of candy, gum, soft drinks, hot beverages, and prepared take-out products, such as slices of pie and sandwiches, were assumed to remain taxable.

The estimate of the impact of this bill comes from two sources of national data on vending machine sales: Automatic Merchandiser and Vending Times. The sales data were adjusted to Indiana's estimated share of sales and assumed a yearly growth rate of 4.9% (the average growth reported by the industry from 1998 through 2000).

Gross Retail (Sales) and Use taxes are deposited in the State General Fund (59.03%), the Property Tax Replacement Fund (40%), the Public Mass Transportation Fund (0.76%), the Commuter Rail Service Fund (0.17%), and the Industrial Rail Service Fund (0.04%).

The annual reductions to these funds for FY 2004 (the first full year of reduction) are estimated to be:

State General Fund	\$ 3,777,920
Property Tax Replacement Fund	2,560,000
Public Mass Transit Fund	48,640
Commuter Rail Service Fund	10,880
Industrial Rail Service Fund	2,560
Total	<u>\$ 6,400,000</u>

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of State Revenue.

Local Agencies Affected:

Information Sources: Vending Times, "Census of the Industry, 2001"; Automatic Merchandiser, "2001 State of the Vending Industry Report"; U.S. Bureau of Economic Analysis, *Annual State Personal Income*.